MOOSE LAKE LOGGERS LTD.

ANNUAL REPORT

1989-90

91-06458/

MOOSE LAKE LOGGERS LTD.

BOARD OF DIRECTORS

John Martin - Acting Chairperson

Cattle Rancher - Moose Lake

R. Grey

Foreman - Moose Lake Loggers Ltd.

H. Boyle

Director - Regional Services Branch, Dept. of Natural Resources

L. Easter

Band Member - Moose Lake Indian Band

J. Mercredi

Logger - Moose Lake Loggers Ltd.

M. Bercier

Logger - Moose Lake Loggers Ltd.

G. P. Trithart

Director - Corporate Projects

Department of Northern Affairs

OFFICERS

John Martin

Acting President

R. J. Kivisto

General Manager

G. P. Trithart

Secretary-Treasurer

HEAD OFFICE: Moose Lake, Manitoba

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APPENDIX - Audited Financial Statements for
The Year Ended March 31, 1990

ANNUAL REPORT - MOOSE LAKE LOGGERS LTD.

APRIL 1, 1989 - MARCH 31, 1990

I. INTRODUCTION:

Moose Lake Loggers Ltd. is a Crown Corporation. It was formed in 1971 under the authority of the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation to provide employment for the residents of Moose Lake and the surrounding areas. The Corporation has a mandate to train local residents to fill the jobs it creates. The Crown's ultimate goal is the divestiture of the corporation to the local residents.

The Company uses skidders to harvest sawlogs and pulpwood in tree lengths for sale to Repap Manitoba Ltd. in The Pas (previously Manfor Ltd). Most of the Company's employees are people of aboriginal ancestry from the Community of Moose Lake, Manitoba. Although the community is located near valuable forestry resources, it traditionally suffers from a serious lack of employment opportunities.

II. MAJOR DEVELOPMENTS

During the period ending March 31, 1977, the Corporation experienced six years of continuous losses. The accumulated total loss was $551,000. However, the Company experienced profits in six of the following 13 years of operation. The following figures illustrate each years actual profit or loss position prior to the receipt of operating assistance from the Government of the Province of Manitoba:

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Year Ending March 31st	Profit (Loss)
1990	(79,586)
1989	(183,517)
1988	(142,359)
1987	71,488
1986	(11,617)
1985	37,952
1984	(51,042)
1983	1,029
1982	(98,286)
1981	127,544
1980	(18,306)
1979	54,420
1978	52,994

During the years ending March 31, 1978 through 1988, it was not necessary for Government to finance operational losses, however, the Company's inability to maintain productivity at levels comparable to the industry standard contributed to the current financial dilemma.

Moose Lake Loggers Ltd., sole market Repap Manitoba Ltd. discontinued its camp operations in 1987 and in 1988, and thereafter all their pricing was based on the cost of commuter operations. This resulted in a revenue loss of $7.05 per cord. Since Moose Lake Loggers Ltd. still maintained its camp operation, its production costs could not be brought into line with those being experienced by Repap Manitoba Ltd. commuter operations. While a commuter operation is being monitored by the

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Company, the current distance between the proposed marshalling point and the resource plus the resultant high costs of transportation and travel-time would abrogate the financial viability of this alternative.

In August, 1988, the Community of Moose Lake and Moose Lake Indian Band ("the Communities") issued a memorandum of intent declaring their intention to have the Government of Manitoba turn over its interests in Moose Lake Loggers Ltd. to the Communities. Subsequently, the Minister responsible, with the approval of a delegation from the Communities, commissioned a feasibility assessment study. The study was conducted by a senior staff member from the Department of Northern Affairs. The study process was based on intensive consultation with Moose Lake residents and other interested parties. The assessment study was completed in April, 1989. It recommended divestiture to a group of small "Cutter Family Businesses" in an association setting. The Communities rejected the recommendation on the grounds that "Cutter Family Business" organization concept would not meet their needs. A second study was commissioned by the Communities and was conducted by E. E. Hobbs and Associates. The Hobbs' study emphasized strict economics. It assumed an insatiable pulpwood market that could expand to accommodate higher and higher production levels. It was premised on a phased-in highly mechanized equipment program and market expansion. However, when the Communities learned that the market could not accommodate the type of

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expansion envisioned by the Hobbs' plan, a decision was made to abandon the Hobbs study and to concentrate on bringing the existing operation to a state of financial viability before considering furthering the divestiture process. Therefore meetings were held between the Communities, Repap Manitoba Ltd. and Moose Lake Loggers Ltd. to develop a financially viable operational plan within the current market restraints.

The devastating fires in northern Manitoba during the summer of 1989 had a considerable effect on several logging operations. The Department of Natural Resources fire crews used the Company's camp as one of their main bases of operation. Considerable revenue was earned from the use of the Company's facilities and services.

During the summer of 1989, the Company completed a contract with Repap Manitoba Ltd. to plant 422,000 seedlings. This compared favourably with the previous year's contract for 469,000 seedling trees. This project enabled 28 residents of Moose Lake and Company employees to find part-time summer jobs.

Presently the Corporation's entire production is produced by 20 owner/operated skidder machines, of which 13 are operated by residents of the area.

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III. REVIEW OF RESULTS

A. Financial Results

Appended to this report is the Provincial Auditor's audited financial statement for the year ended March 31, 1990. The statement reported an excess of expenditures over revenues of $79,586 before operating assistance from the Province of Manitoba. This compares favourably with the 1988-89 figures of $183,517.

Major factors of the improved position relate to unusual revenue from sources such as board, logging and other charges from the Department of Natural Resources for goods and services provided in connection with the forest fire fighting and a $53,500 fire loss recovery on a separate fire which caused extensive damage to the power plants and shed. These revenues were partially offset by camp and administrative cost increases related to the forest fire. These were accounted for in the general operating expenses.

The following table illustrates per cord costs for major expenditure categories over the past three years:

Cost Category	1987-88	1988-89	1989-90
Wages & Benefits (excludes tree planting)	$33.55	$34.94	$37.49
Equipment	12.67	13.32	13.56
Fuel	3.10	1.81	2.87
Total Direct Logging Costs	40.86	42.95	42.93
Total Camp Operations costs	11.50	10.57	15.52
Total Administrative Costs	4.65	3.83	5.30
Total Costs	$57.01	$57.35	63.75

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The wage and benefit increases of $2.55 per cord over the previous year reflected the substantial non variable increase in wages in the camp and administration payrolls. It was directly related to the services provided to Natural Resources during the fire. These expenditures together with a 21.2% decrease in production reflected per cord increases in the cost of all Camp operations and administrative costs.

B. Production

Production in fiscal year 1989-90 was 47,218 cords, a decrease of 12,695 cords from the previous year.

A comparison of annual production, in cords, for the last five years is provided in the following table:

Year Ending March 31st	Owner/Operator
1990	47,218
1989	59,913
1988	48,608
1987	56,072
1986	56,634

Owing to the fire which caused a late start and subsequent production problems, the Company was 5,755 cords below their budget. Quite apart from the financial burden of camp operations, the Company continued to be plagued by an average production level which was below the industry norm. Contracts with Repap Manitoba Ltd. are based on the calendar year.

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The assigned quota for 1988 and 1989 was 58,200 cords whereas 1990 was 45,700 cords.

C. Related Activities

Employment remained constant at 66 employees as compared to 71 in 1988-89 Approximately 80% of those employed were Native residents of Moose Lake, Cormorant, Cranberry Portage and The Pas. Excluding The Pas, there was little or no alternate employment in those communities, except for traditional commercial fishing and trapping which are seasonal activities. Included in the 66 employees were 54 piece workers, 7 hourly and 5 salaried staff. In 1989-90, the average annual salary for loggers was $22,742 as compared to $29,477, $22,334 and $24,769 in each of the three respective previous years.

The Company maintained a commissary which provided a variety of clothing, confectionery items and saw parts for employees. Parts and service were also provided to owner/operators. However, some owner/operators have developed to the stage where they operate quite independently from the Company.

D. Training

The Company continued to provide on-the-job training. The success of the training program is shown in the following results:

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	Total Staff		Native Staff	
	1989-90	1988-89	1989-90	1988-89
Office	3*	3*	3*	3*
Foremen	3*	3	3*	3
Kitchen & Dorms**	7	7	7	7

* One part-time
** Five are females

Manitoba

Office of the Provincial Auditor

MOOSE LAKE LOGGERS LTD.

Auditor's Report and Financial Statements
for the year ended March 31, 1990

Office of
the Provincial Auditor

905 - 386 Broadway
Winnipeg, Manitoba, CANADA
R3C 3R6

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Moose Lake Loggers Ltd. as at March 31, 1990 and the statements of retained earnings, revenues and expenditures, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Note 11 reflects that the Company's unfunded pension liability as at December 31, 1989 was $36,693. Had this unfunded pension liability and the associated pension costs been recorded in the financial statements, the Company's liabilities would have increased by $36,693, the retained earnings would have decreased by that amount, and the Company's pension costs would have decreased by $30,805 for the year ended March 31, 1990.

In our opinion, except for the failure to record the information referred to in the preceding paragraph, these financial statements present fairly the financial position of Moose Lake Loggers Ltd. as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in note 2 applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
August 9, 1990

F. H. Jackson, CA
Provincial Auditor

MOOSE LAKE LOGGERS LTD.

Balance Sheet
as at March 31, 1990
(with 1989 figures for comparison)

	1990	1989
ASSETS		
Current assets:		
Accounts receivable (Note 3)	$ 598,906	$ 588,065
Loans receivable from sub-contractors re purchase of equipment - secured	16,544	19,532
Inventories, at cost	59,439	61,534
Prepaid expenses	17,943	17,386
Total current assets	692,832	686,517
Fixed and other assets (Note 4)	32,173	104,888
	$ 725,005	$ 791,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Excess of outstanding cheques over bank balances	$ 56,851	$ 102,253
Bank demand loan (Note 5)	130,000	160,000
Accounts payable and accrued liabilities (Note 6)	151,348	202,760
Total current liabilities	338,199	465,013
Shareholders' equity:		
Capital stock (Note 7)		
Authorized - 35,000 common shares for a maximum consideration of $350,000		
Issued and fully paid - 30,009 common shares	300,090	300,090
Contributed surplus:		
Grant from the Government of Canada towards capital expenditures	5,720	5,720
Retained earnings	80,996	20,582
Total shareholders' equity	386,806	326,392
	$ 725,005	$ 791,405

The notes are an integral part of the financial statements.

Approved by the Board:

Director _____

Director _____

MOOSE LAKE LOGGERS LTD.

Statement of Retained Earnings
for the year ended March 31, 1990
(with 1989 figures for comparison)

	1990	1989
Balance, beginning of year	$ 20,582	$ 54,099
Add: Excess of revenue over (under) expenditure	60,414	(33,517)
Balance, end of year	$ 80,996	$ 20,582

The notes are an integral part of the financial statements.

MOOSE LAKE LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1990
(with 1989 figures for comparison)

	1990	1989
Revenues:		
Log cutting contract	$ 2,479,081	$ 2,987,484
Commissary sales	473,695	470,546
Board charges	271,676	105,747
Tree planting	112,076	115,620
Trainee reimbursement - Government of Canada	-	40,382
Miscellaneous	41,624	25,661
Road maintenance	27,703	21,299
Interest income	4,797	4,485
Accounting service fees	600	1,600
Total revenues	3,411,252	3,772,824
Expenditures:		
Log cutting contracts	2,027,037	2,572,744
Camp operations	1,168,787	1,063,059
General and administrative	250,384	229,360
Tree planting	98,130	91,178
Total expenditures, Schedule 1	3,544,338	3,956,341
Excess of expenditures over revenues, before operating assistance from the Government of the Province of Manitoba and extraordinary item	133,086	183,517
Operating assistance from the Government of the Province of Manitoba	140,000	150,000
Extraordinary item - Fire loss recovery	53,500	-
	193,500	150,000
Excess of revenues over (under) expenditures	$ 60,414	$ (33,517)

The notes are an integral part of the financial statements.

MOOSE LAKE LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1990
(with 1989 figures for comparison)

	1990	1989
Cash Provided By (Used For):		
Operating activities:		
Excess of revenues over (under) expenditures	$ 60,414	$ (33,517)
Item not involving cash		
Depreciation and amortization	47,835	80,426
	108,249	46,909
Net change in non-cash working capital balances related to operations	(57,727)	(185,340)
	50,522	(138,431)
Investing activities:		
Additions to fixed assets	-	(35,682)
Proceeds on sale of fixed assets	24,880	-
Increase (decrease) in cash	75,402	(174,113)
Cash deficiency at beginning of period	(262,253)	(88,140)
Cash deficiency at end of period	(186,851)	(262,253)
Represented by:		
Bank demand loan	$ (130,000)	$ (160,000)
Outstanding cheques	(56,851)	(102,253)
	$ (186,851)	$ (262,253)

The notes are an integral part of the financial statements.

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1990
(with 1989 figures for comparison)

	1990	1989
Log cutting contracts:		
Wages and benefits	$ 1,296,317	$ 1,685,521
Equipment rental	632,652	790,306
Fuel and oil	43,836	34,685
Miscellaneous supplies	26,883	22,563
Health and post secondary education tax levy	25,265	33,343
Repairs and maintenance	2,084	6,326
	2,027,037	2,572,744
Camp operations:		
Wages and benefits	317,129	260,600
Provisions	150,624	133,640
Repairs and maintenance	109,194	74,506
Fuel and oil	83,408	65,185
Depreciation	32,720	62,915
Freight	14,001	8,836
Insurance	12,008	14,732
Equipment rental	7,647	7,635
Health and post secondary education tax levy	5,929	5,114
	732,660	633,163
Commissary - cost of sales	436,127	429,896
	1,168,787	1,063,059
Carried forward	$ 3,195,824	$ 3,635,803

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1990
(with 1989 figures for comparison)

	1990	1989
Brought forward	$ 3,195,824	$ 3,635,803
General and administrative:		
Wages and benefits	156,652	146,741
Professional fees	22,848	18,597
Miscellaneous	9,082	7,401
Directors' fees and salaries	8,514	6,813
Fuel and oil	8,241	8,113
Interest expenditure	7,951	6,946
Insurance	6,833	6,298
Travel	6,420	3,774
Communications	6,340	4,768
Directors' travel	5,023	4,794
Stationery and supplies	3,241	4,068
Health and post secondary education tax levy	3,103	2,988
Repairs and maintenance	3,069	3,130
Depreciation	2,448	4,929
Bad debts	619	-
	250,384	229,360
Tree planting:		
Wages and benefits	89,515	75,431
Bus and trucks	3,374	4,410
Miscellaneous	2,852	3,389
Health and post secondary education tax levy	1,745	1,546
Tools and bags	644	5,653
Equipment maintenance	-	749
	98,130	91,178
Total expenditures	$ 3,544,338	$ 3,956,341

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1990

1. Nature of Operations

Moose Lake Loggers Ltd. was formed in 1971 under the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation providing employment for residents of Moose Lake and surrounding areas. The Company also has a mandate to train local residents to fill the jobs created, with the ultimate goal being management by local residents.

2. Significant Accounting Policies

General:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles except for administrative expenses and the pension plan.

Administrative expenses:

Certain administrative expenses, as detailed in Note 8, are provided at no charge or at a reduced charge by the Government of the Province of Manitoba.

Pension Plan:

The Company participates in a multi-employer pension plan for hourly paid and piece worker employees represented by the IWA-Canada. The plan is non-contributory for employees. The initial unfunded liability in the plan as at September 1, 1986 is not accrued in the financial statements but is being funded by special annual instalments until August 31, 2001.

Fixed and other assets:

Fixed and other assets are stated at cost. It is the Company's policy to provide for depreciation and amortization of fixed and other assets on the basis shown in Note 4.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to roadside and scaled, in accordance with the terms of the sales contract.

3. Accounts Receivable

	1990	1989
Trade	$ 443,400	$ 422,311
Employees	15,506	15,754
Government of the Province of Manitoba	140,000	150,000
	$ 598,906	$ 588,065

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1990

4. Fixed and Other Assets

	1990			1989
	Cost	Accumulated Depreciation and Amortization	Net	Net
Main road construction	$ 235,321			
Less grants received	156,000			
	79,321	$ 79,321	$ -	$ -
Campsite improvements	95,197	95,197	-	5,877
Buildings and trailers	505,503	505,066	437	24,476
Equipment	240,382	208,646	31,736	74,535
Total	$ 920,403	$ 888,230	$ 32,173	$ 104,888

The Company depreciates its fixed assets and amortizes its other assets on the following basis:

	Annual Rate
A) Depreciation	
a) Straight line	
Buildings	10-33 1/3%
Trailers	15-33 1/3%
Equipment	12 1/2-33 1/3%
b) Diminishing balance	
Trucks	30%
B) Amortization	
a) Straight line	
Campsite improvements	12 1/2-33 1/3%
b) Other	
Main road construction	10 cents per cord sold

5. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1990

6. Accounts Payable and Accrued Liabilities

	1990	1989
Trade	$ 55,076	$ 98,066
Government of the Province of Manitoba	15,928	11,841
Wage deductions	49,562	64,617
Employees	30,782	28,236
	$ 151,348	$ 202,760

7. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

8. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $36,800 (1989 - $24,000). The Government of the Province of Manitoba provides Workers Compensation coverage for Company staff. Effective April 1, 1987 the Company agreed to pay the lesser of $60,000 per annum or actual costs billed to the Government of the Province of Manitoba. The total cost to the Company was $60,000 (1989 - $60,000). Actual cost paid by the Government of the Province of Manitoba to the Workers Compensation Board on the Company's behalf was $131,546 (1989 - $214,319).

9. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba. The Company is also economically dependent on Repap Pulp and Paper Inc., its sole customer.

10. Imputed Interest Cost Information

The following information is supplied in accordance with the request of the Minister of Finance.

The annual borrowing cost to the Government for the average investment of $300,090 in share capital at the weighted average rate of 10.05% (1988-10.52%) paid by the Government in respect of its 1989 debt is $30,200 (1988-$31,600).

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1990

11. Pension Liability

A full actuarial valuation of the pension plan was performed as at September 1, 1986. On the basis of a projection, the actuary has estimated that Moose Lake Logger's share of the unfunded liability is $36,693 as at December 31, 1989 (1988 - $67,498).

12. Subsequent Event

During May 1990, the Company closed the Camp operations at Talbot Lake and established a marshalling point at the Crossing Bay intersection. The closing of the Camp will eliminate the cost of housing and feeding employees. These reductions in costs will be partially offset by additional wage and transportation costs from the marshalling point to the worksite.